Asian Social Science

www.ccsenet.org/journal.html

Vol. 4, No. 1
January 2008

The Impact of Non-tariff Barriers on China's Textile and Clothing Exports and Relevant Strategies

Tingqin Zhang & Lihong Han

Applied Technical College, Daqing Petroleum Institute, Qinhuangdao 066004, China

Hebei University of Science and Technology, Shijiazhuang 050018, China

Abstract

The textile and clothing industry is a traditional pillar industry for China's economy. We have developed rapidly in international textile and clothing trading and have gained significant achievements in this field with reform and opening-up to the international market. China also expects to maintain this prevailing trend and to even increase the volume of exports with the gradual reduction of tariffs and the elimination of quotas. With these gains, however, a number of problems have arisen that may threaten the future of the Chinese textile and clothing industry.

World trade liberalization doesn't necessarily mean free markets. The industry is still facing great challenges and difficulties from non-tariff barriers which are playing an ever-greater role in the ability of governments to regulate imports from other countries. Known as "green trade barriers", new non-tariff barriers to trade, such as technical trade barriers and environmental trade barriers, have taken the place of traditional trade barriers, such as tariffs and quotas. By analyzing the background and current situation of China's textile and clothing industry, as well as the great impact on both sides of these new barriers, this paper puts forward an effective way to clarify what efforts should be made not only by trade companies, but also by the government to alleviate the effects of NTBs. Only through a well-coordinated joint-effort can manufacturers break through such non-tariff trade barriers and enhance the overall quantity and quality of clothing exports, so that China can maintain its current growth in the textile and clothing trade and also regain its reputation as the "kingdom of textiles".

Keywords: Non tariff barriers (NTBs), Textile and Clothing industry, Quota, WTO, Anti-dumping pre warning system

1. Introduction

China has been producing textiles for many thousands of years. Known around the world since the time of the Romans, Chinese silk was a prized item and traders traveled many thousands of miles to engage in purchases of such items for sale in Europe and the Middle East. In the past such international trade was limited given the difficulties in transportation which added substantially to the cost of goods. Navigating waterways in ancient times was extremely dangerous given the poor quality of ships. Even the famous "Silk Road" was littered with bandits and other hazards. One should note that Marco Polo's return to Italy from China took many years and by the time of his arrival in Venice he had been robbed of everything he had. The dangers involved in such trade increased the cost of the goods traded. There was also no silk production in the west and no local manufacturers were threatened by such trade.

Beginning in the 16th and 17th centuries, due to the industrialization of Western Europe, China's share of world trade fell behind many countries and was, for a long time, considered a small entity with few products of value. As silk production was introduced in the west, particularly in the Ottoman Empire, demand for Chinese silk declined dramatically and China's balance of trade was greatly harmed. As such, the Chinese government took steps to impose their own barriers to trade limiting foreign traders to the province of Guangdong. The British Navy fought a series of small wars with China to preserve this imbalance and the government was impoverished because of it. During the 20th century, China's market was largely closed both to imports and exports and lagged further and further behind in terms of industrialization.

China's declining share of international trade during the early part of the 20th century was contrasted by the increasing importance of international trade in Europe and North America. After the end of the Second World War, a number of countries formed what became known as the GATT or General Agreement on Tariffs and Trade. Founded in 1947, the GATT was to serve as a framework to standardize agreements on how countries could regulate trade with each other. The first participants of this new market were the developed countries in the West, though this would eventually change. In 1994, by general agreement, the GATT became what is known as the WTO or World Trade Organization. The WTO has become substantially larger, more diverse, and more ambitious, than what the GATT originally was in scope. Given its prestige, accession to the WTO is seen as a substantial milestone for developing countries.

Over the last twenty five years China has embarked on an unprecedented industrialization scheme using its abundant labor to expand into a number of markets, textiles being one of them. China now produces an astonishingly wide range of textiles, comparable with any other country in the world. As technology has improved, the cost of international trade has decreased and is considerably cheaper now than in the past. As such, international trade and exports have constituted a substantial share of China's economic growth. While this was also the case with the so-called "Asian Tigers": Singapore, Korea, Hong Kong, and Taiwan, China's growth is unprecedented in its size and scope.

In 2001, China formally acceded to WTO, which was seen by many as a formal recognition of China's recent development. Prior to accession to the WTO, China's cost advantage in manufacturing was largely negated by high tariffs that were negotiated by bilateral treaties. With the drop in tariffs, there has been an explosion in the amount of exported textiles and an ever-increasing share of textile manufacturing has come to be dominated by Chinese companies. One important difference in present day international trade from past trade is the standardization of goods and services around the world. Products made in China, are easily made in any country anywhere in the world. As the reverse of this is also true, a substantial increase in Chinese exports would create pressure on manufacturers in other countries. With increases in technology and decreasing costs of international trade, relative advantages to trade such as low labor rates have greater influence on how competitive companies are. One unintended consequence of this growth has been foreign resistance to Chinese manufactured goods and the increased use of non-tariff barriers to trade.

After China's entrance into the World Trade Organization (WTO), and the subsequent elimination of quotas and reduction of tariffs, it would seem that manufacturers would have unprecedented access to the global market. Unfortunately, that has not been the case. Although there have been encouraging signs, many local companies have had difficulties entering the international market. In the future, more uncertainty is evident when it comes to non-tariff barriers. The chances of reaching the full potential of free trade in the textile and clothing sector would be slim if the use of non-tariff barriers is adopted to the extent that quotas and tariffs were once used.

1.1 Introduction and classification of Non Tariff Barriers

The Non-Tariff Barriers (NTBs) as defined by The General Agreement on Tariffs and Trade (GATT) allows an importing country to introduce measures which are necessary to protect human, animal or plant life or health. The WTO Agreement on Technical Barriers to Trade also allows for the imposition of technical requirements on products by an importing country. The principles of NTBs are those related to the below mentioned:

Environmental issues – One allowance to regulate imports is the concern that such product will have a detrimental affect on the environment of the importing country. As there is no international standard on what qualifies as harmful, countries are free to make up their own standards such as certain AZO-free fabrics, nickel-free buttons or zippers and so on. Exporters have been responsible for abiding by these requirements and as such have had to assume the cost. The cost of such regulations has proved more than many suppliers can handle. In 2001, one garment company in Jiangsu province was punished with USD $160,000 by the Germany importing company, for a failure to abide by ecological standards. Another company in Zhejiang Province was informed that the buyer in Belgium would return 300,000 jackets because the jacket zippers contained a banned chemical content nickel that would have endangered the public health and environment.

Social issues — major concerns being focused on child labors, forced labors, health and safety, disciplinary practices, working hours and remuneration. These are currently being addressed in such voluntary standards/certification schemes as SA 8000, Worldwide Responsible Apparel Production (WRAP) certification scheme, and Compliance and Supply Chain Management (CSM) system. Attached 2 pages regarding the detail of SA8000 (appendix 1). According to the research done in the province of Guangdong, not one of the thousands of manufactures in Shanshui city would be qualified to produce such products in accordance with SA8000. This will result in substantial difficulties for manufacturers who wish to export to US and EU markets if they should require such a certification for export.

Anti-dumping actions. Dumping happens when a company sells a product in a aboard country at a price lower than the one in its own home market or under cost. To prove dumping a country needs to establish three things: (i) Dumping test: that imported goods are being sold at 'below the normal price'; (ii) Injury test: that a domestic firm is being injured by these exports; and (iii) Causality test: that dumping is causing injury. During the 1990's the number of anti-dumping regulations implemented against China increased by 10-20% each year, totaling 467 times by the end of April 2002. This is a 3000% increase from the number of cases in the early 1990's. China today is the subject of more anti-dumping legislation than any other country in the world.

Safeguard measures. While both safeguard and anti-dumping measures are aimed at import surges, safeguard measures act in a blanket non-discriminatory manner, whereas anti-dumping measure is against a specific company in the exporting country. When a safeguard measure is applied, the country applying the measure shall endeavor to maintain a substantially equivalent level of concession through mutual agreement with the country (ies) affected. As opposed to anti-dumping actions, no compensation is required.

Upon its accession, China agreed to two provisions that would allow the US and all other WTO members to invoke safeguard measures against its textile and clothing products. These are special textile safeguards and product-specific safeguards. The special textile safeguard will last until the end of 2008, and stipulates that the importing country can invoke the restraints if imports from China cause market disruption. China will have no right to retaliate against these restraints.

The product-specific safeguard will be in effect for 12 years until December 2013. Similarly, the importing country can invoke restrictions if imports from China cause market disruption, but it will require a public hearing before the invocation of such safeguard. Both safeguards cannot be applied to the same product at the same time. In addition to these two safeguards, China will continue to be subject to simpler rules for invocation of anti-dumping restraints until 2016. These restrictions have been described as conditions of the "post quota era", as garment companies still must deal with quotas for certain items, such as woven trousers, knitted wear, woven skirts,

Despite the foreseeable opportunities that the post-quota era would bring, these "China-specific" safeguards will certainly put limits on the predicted wider expansion of the textile industry. Even before full non-quota status had been reached, the US and EU textile manufacturers had already petitioned their governments to impose these safeguards on China.

One case in point is the US textile industry's attempt to seek protection against Chinese imports. On 24 July 2003, the US textile industry coalition, including cotton, man-made fiber, yarn spinners and fabric manufacturers, submitted to the Committee for the Implementation of Textile Agreements (CITA) the first petitions under the special textile safeguard contained in China's WTO accession agreement. This safeguard may be used to impose quotas on textiles and clothing products covered by the ATC, including those that have already been integrated into the GATT. The coalition wants the US government to impose quotas on Chinese knit fabric, dressing gowns, brassieres and gloves. A similar petition regarding socks is rumored to be the next target for safeguard request.

Preferential Rules of Origin: Preferential rules of origin under various free trade agreements and customs unions could be used by countries to discriminate between imports from different countries. They allow a country to deny the benefits of an agreement to countries that have not signed up to a treaty or agreement (e.g. NAFTA, CAFTA, EU, etc.). This discrimination can operate in a positive or negative manner; positive for countries that are members of an agreement or treaty, and negative if they are not. China is not a party to any of these trading blocks and there is little momentum in East Asia to build one.

1.2 Characteristics of Non Tariff Barriers

Compared with tariffs and quotas, NTBs have several advantages. With the development of the world economy and technology, NTBs tend to be more varied and unpredictable with the same result of tariffs and quotas.

NTBs are more flexible and pertinent: While tariff barrier settings must be agreed to by legislation, usually over a drawn-out period of time, NTBs can be carried out by an administrative process very quickly, and it is much more convenient in urgent cases where the importing country needs to take a quick action on one importing item from one certain country. For example, Tara Materials Inc. (Tara) US company, applied for an anti-dumping appeal to the United States Department of Commerce (DOC) and International Trade Commission (ITC) regarding painting fabric imported from China on 31st March 2005 with a request to levy an anti-dumping tariff on certain painting fabric made in China. ITC accepted the appeal from Tara on 21st April and judged the painting fabric from China injured the existing same industry in US, according to the progress; DOC launched an investigation and levied a 244% import tax (currently, it is only 6%). The entire process took only three weeks.

More efficient on limiting importing: Tariff barriers indirectly restrict importing by weakening the rival's competition with higher tariff collection to increase the cost and price of importing product. At the same time, if an export country has tax refund for stimulation exports, such as China, or exporting country uses dumping sales strategies to decrease the cost and price, then high taxation will not have the desired effect. NTBs, however, can have an immediate effect on this situation.

More concealable: Tariffs, once set are not easily changed and are usually not difficult to understand. For NTBs however, prior notification is not required and given their arbitrary nature, it can be very difficult to understand what is being restricted. NTBs vary from year to year and from country to country and can often be quite contradictory making a concentrated response difficult and frustrating.

2. Impact of Non-tariff barriers on China's textile and garment exports

While NTBs have increased the difficulties to international trade, it is important to note that NTBs has eliminated such trade. Everything is two-sided and NTBs is no exception. Some Chinese exporters have quickly noticed found ways to go around these barriers and some manufacturers have taken it upon themselves to try to adhere to the new restrictions. Some companies have found the new framework beneficial to dealing with international clients while others have struggled in this new environment.

2.1 The positive impact on textile and garment export

The most common result of the new barriers to trade is to raise the standards by which products are produced. For companies able to meet these new standards, the result is improved product quality that would help improve its reputation abroad. In 2005, Hangzhou Hengshen printing and dyeing Ltd. in Zhejiang province obtained OEKO-TEX100 certificate for ecological standards, allowing it access to the US and European market. For most textile and garment companies, this could be one of the best news and reward in future.

Requirements for innovation on fabric and material to support the textile and garment exports will allow companies to launch new products to attract new customers while maintaining its original customer base. Hong Kong used to be one of the biggest exporters in textile and garment

2.2 The negative impact on textile and garment exports

Increase in production cost and competition: As requests for testing and regulation are increased, the cost of production increases as well weakening the competitiveness of manufacturers. One such inspection system is the SA8000 system. The SA8000 system, implemented by Social Accountability International based in New York in cooperation with the United Nations and the International Labor Organization. One requirement needed for SA8000 accreditation is the standardization of the workweek where workers would be limited to a 48-hour workweek with paid overtime and a mandatory day off. Standardized work hours in China have been difficult to implement due to the seasonal nature of the business. Production is needed in spurts with lulls in between. As such, for most textile and clothing companies, workers usually work more than eight hours per day, when in the busy season, and are often requested to work over twelve hours per day.

Inconvenience of market entrance- Given the technological gap between developed countries and developing countries, goods from developing countries will always have problems reaching the technological standards or environment standards in developed countries. This will put such goods at a competitive disadvantage. As mentioned before, the SA8000 system, if fully implemented would exclude virtually every manufacturer of textiles in China from entering the international market.

Unpredictability of the market, more risk for the both importers and exporters: As NTBs evolves according to environmental and technological changes, exporters have difficulty reacting and formulating a business strategy. They receive every order with big risk; the result could be a very huge financial loss, so they will gradually lose their interest in the market

3. Corresponding Strategies

"Don't put all eggs in one basket" as the old saying goes, trading companies and manufactures should learn to share the risk, not producing single product or relying on one customer or one exporting market. It is also important for exporters to realize that the market demand along with international regulations is fluid and that changes have to be expected. Market research still composes a very small part of manufacturers' budgets here and as companies have become accustomed to having foreign companies come to them with expected requirements, they have neglected the market and government needs that prompted those requirements in the first place. Only by attaining greater exposure to the outside world will manufacturers get a better idea of market and regulation trends and then be able to react accordingly. This flexibility will not be possible without greater efficiency from Chinese firms as well. Chinese manufacturers have not previously emphasized such efficiency because it was not necessary given their cost advantage due to low labor costs. As the cost of trade increases, manufacturers will have to boost efficiency to remain competitive. At the same time, most manufacturers should not forget the domestic market with 1.3 billion people which is regarded as the biggest potential market in the world. By learning how to cater to the local market, companies would be more used to the market changes in other countries. One knitted fabric company in Guangzhou gave us a good example of this point. Established in 1963 with a small scope, it is now becoming a medium size company with a thousand employees, their clients almost are largely market leaders.

References

McCallum, Bennett. (1995). Two Fallacies Concerning Central Bank Independence. *American Economic Review Papers and Proceedings*. Vol. 85, No. 2 (May), pp. 207-211.

Helliwell,J.F . (1998). How much do national borders matter? Washington D.C: The Brooklings Institution.

McCallum, John. (1995). National Borders Matter: Regional Trade Patterns in North America. *American Economic Review*. Jun 95, 85(3), pp. 615-623.

Yang, Wu. (2002). The situation of Anti-dumping after China's WTO Entry and Our Countermeasures. *Foreign Economic and Trade Practice*. 01:35-38 (in Chinese)

Damien Neven etc. (1993). *Merger in Daylight.* London: Centre For Economic Policy Research.

Liu, Bingyong. (2003). A Review of Adjustment of the value Objective in the American Antitrust Act. *Journal of Nanjing Normal University*. No.1 pp. 34-40.